



**STATE OF ARIZONA**  
**DEPARTMENT OF INSURANCE**

**JANE DEE HULL**  
Governor

2910 NORTH 44th STREET, SUITE 210  
PHOENIX, ARIZONA 85018-7256  
602/912-8456 (phone) 602/912-8452 (fax)  
*<http://www.state.az.us/id>*

**CHARLES R. COHEN**  
Director of Insurance

**REGULATORY BULLETIN 2001-16**

**TO:** All Insurers, Insurance Industry Representatives, Insurance Trade Associations and Other Interested Parties

**FROM:** Charles R. Cohen  
Director of Insurance

**DATE:** November 20, 2001

**RE:** **Permitted Accounting Practice Letters**

Pursuant to HB 2021 (Ch. 134), effective on January 1, 2001, Arizona domestic insurers became subject to revised accounting practices for use in preparation of their statutory financial statements filed with this Department. These revised accounting practices are codified in the NAIC Accounting Practices and Procedures Manual. The Manual's Preamble states that the codified practices are not intended to preempt state legislative and regulatory authority and may be subject to modification as prescribed or permitted by state insurance commissioners. This Regulatory Bulletin announces the standards and procedures the Department will apply in the consideration and evaluation of requests for permitted accounting practices that deviate from those established by the Manual.

Prior to this bulletin, the Department approved deviations from statutory accounting practices in effect prior to January 1, 2001 on an informal and ad hoc basis. These approval letters were issued principally to facilitate the issuance of audit opinions from the insurer's independent certified public accountants, which were required to satisfy statutory requirements for the filing of annual audited financial reports. Through December 31, 2001, insurers may continue to rely upon permitted accounting practice letters that predate this bulletin, including for purposes of filing 2001 Annual Statements.

As of January 1, 2002, permitted accounting practice letters that predate this bulletin are subject to reconsideration as a result of changes in the insurer's financial condition and operations, changes in Arizona laws and regulations, or changes in practices and procedures implemented by the NAIC. If an insurer wishes to continue to rely after January 1, 2002 on a permitted accounting practice letter that predates this bulletin, the insurer must submit a request for a permitted accounting practice pursuant to these new procedures. If upon reconsideration the Department determines a permitted accounting

practice letter will not be reissued, the Department will work in good faith with the insurer to minimize any adverse consequences to the insurer that result therefrom. The Department's determination that a permitted practice letter will not be issued will constitute an "appealable agency action" within the meaning of A.R.S. §41-1092 (3) and the insurer will be notified of its right to file a notice of appeal with respect to the action.

The Department's Financial Affairs Division will accept requests for permitted accounting practices in the following circumstances:

- Where material and unusual conditions exist that would render the financial statements misleading as a result of strict adherence to accounting practices required by the Manual and/or Arizona law;
- Where accounting requirements, practices, treatment or issues are not clearly addressed in the Manual or under Arizona law; or
- Where, by Statutory Accounting Principles ("SAP") or Arizona law, the particular accounting treatment or practice requires the Department's written approval prior to implementation.

The Financial Affairs Division has established general requirements for insurers to follow in submitting their requests for permitted accounting practices. These general requirements include, among other items, (1) identification of the circumstances pursuant to which the request is being made, (2) a discussion and analysis of the proposed practice, and (3) the rationale and justification for the practice. The Department's review of the requested accounting practice will focus on the following criteria, which insurers should be prepared to address:

- Does compliance with the Manual result in solvency concerns, which would be avoided through implementation of the proposed accounting practice;
- Is the proposed practice, transaction or agreement being entered into principally for the benefit or convenience of the insurer and/or for the benefit or convenience of another entity or consumer;
- Does implementation of the proposed practice have a detrimental impact on the interests of the insurer's policyholders;
- Is the proposed practice limited in duration and does the insurer expect to come into compliance with the Manual after a reasonable period of time;
- Has this issue or practice been addressed by any other accounting authority or regulatory agency, and if so, how; and
- Does the request involve a material transaction or agreement with an affiliate and has that transaction been filed and approved pursuant to the Arizona Holding Company Act.

Requests for permitted accounting practices should be directed to Kurt Regner, Chief Financial Analyst, Financial Surveillance Section of the Financial Affairs Division, 2910 N. 44<sup>th</sup> Street, 2<sup>nd</sup> Floor, Phoenix, AZ 85018. Phone: (602) 912-8420, FAX: (602) 912-8421, or [Kregner@id.state.az.us](mailto:Kregner@id.state.az.us).